

**REPORT OF THE AUDIT OF THE  
MADISON COUNTY  
SHERIFF'S SETTLEMENT - 2005 TAXES**

**April 15, 2006**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
MADISON COUNTY  
SHERIFF'S SETTLEMENT - 2005 TAXES**

**April 15, 2006**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2005 Taxes for Madison County Sheriff as of April 15, 2006. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$29,776,224 for the districts for 2005 taxes, retaining commissions of \$794,414 to operate the Sheriff's office. The Sheriff distributed taxes of \$28,962,415 to the districts for 2005 Taxes.

**Report Comment:**

- The Madison County Sheriff's Office Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
John R. Farris, Secretary  
Finance and Administration Cabinet  
Honorable Kent Clark, Madison County Judge/Executive  
Honorable Cecil Cochran, Madison County Sheriff  
Members of the Madison County Fiscal Court

Independent Auditor's Report

We have audited the Madison County Sheriff's Settlement - 2005 Taxes as of April 15, 2006. This tax settlement is the responsibility of the Madison County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Madison County Sheriff's taxes charged, credited, and paid as of April 15, 2006, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated August 31, 2006, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
John R. Farris, Secretary  
Finance and Administration Cabinet  
Honorable Kent Clark, Madison County Judge/Executive  
Honorable Cecil Cochran, Madison County Sheriff  
Members of the Madison County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Madison County Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

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Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
August 31, 2006



MADISON COUNTY  
 CECIL COCHRAN, SHERIFF  
SHERIFF'S SETTLEMENT - 2005 TAXES

April 15, 2006

	County Taxes	Special Taxing Districts	School Taxes	State Taxes
<u>Charges</u>				
Real Estate	\$ 2,336,472	\$ 4,386,597	\$ 15,653,278	\$ 3,687,685
Tangible Personal Property	219,898	576,598	1,283,169	1,189,761
Intangible Personal Property				335,553
Fire Protection	43			
Increases Through Exonerations	1,180	2,247	7,532	4,236
Franchise Corporation	136,281	261,031	820,625	
Additional Billings	1,303	2,434	8,918	2,691
Prior Year Additional Bills	313	533	2,049	498
Limestone, Sand, and Mineral Reserves	255	476	1,673	402
Bank Franchises	175,613			
Penalties	14,107	26,693	93,701	24,226
Adjusted to Sheriff's Receipt	2,034	3,442	29	3,171
	<hr/>	<hr/>	<hr/>	<hr/>
Gross Chargeable to Sheriff	2,887,499	5,260,051	17,870,974	5,248,223
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<u>Credits</u>				
Exonerations	22,972	44,245	149,250	31,882
Discounts	44,202	79,444	269,570	85,763
Delinquents:				
Real Estate	54,676	103,145	366,826	86,296
Tangible Personal Property	5,535	11,206	31,455	14,072
Intangible Personal Property				5,444
Delinquent Prior Year Additional Taxes	32	54	208	50
Uncollected Franchise	9,128	17,698	57,370	
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Total Credits	136,545	255,792	874,679	223,507
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Taxes Collected	2,750,954	5,004,259	16,996,295	5,024,716
Less: Commissions *	117,203	208,429	254,944	213,838
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Taxes Due	2,633,751	4,795,830	16,741,351	4,810,878
Taxes Paid	2,632,013	4,792,808	16,729,736	4,807,858
Refunds (Current and Prior Year)	1,738	3,022	11,615	3,020
	<hr/>	<hr/>	<hr/>	<hr/>
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

\*See Next Page

The accompanying notes are an integral part of this financial statement.

MADISON COUNTY  
CECIL COCHRAN, SHERIFF  
SHERIFF'S SETTLEMENT - 2005 TAXES  
April 15, 2006  
(Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	11,069,087
4% on	\$	1,700,842
1.5% on	\$	16,996,295

MADISON COUNTY  
CECIL COCHRAN, SHERIFF  
NOTES TO FINANCIAL STATEMENT

April 15, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MADISON COUNTY  
CECIL COCHRAN, SHERIFF  
NOTES TO FINANCIAL STATEMENT  
April 15, 2006  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2005. Property taxes were billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 1, 2005, through April 15, 2006.

Note 4. Interest Income

The Madison County Sheriff earned \$47,713 as interest income on 2005 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Madison County Sheriff collected \$117,062 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Madison County Sheriff collected \$2,721 of advertising costs and \$5,490 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2005 taxes, the Sheriff had \$12,199 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

COMMENT AND RECOMMENDATION



MADISON COUNTY  
CECIL COCHRAN, SHERIFF  
COMMENT AND RECOMMENDATION

As of April 15, 2006

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Madison County Sheriff's Office Lacks Adequate Segregation Of Duties

During the review of internal controls, it was noted that the Madison County Sheriff's office lacks an adequate segregation of duties. Due to the small size in office staff and budget restrictions, the office has limited options for establishing adequate segregation of duties. We recommend the Sheriff implement the following compensating controls to offset this internal control weakness:

These controls could include the Sheriff performing surprise cash counts, reconciling monthly reports to supporting documentation including the receipt and disbursement ledgers, and examining monthly bank reconciliations performed by the bookkeeper. The Sheriff should document these duties performed by initialing the source document.

Good accounting practices dictate that keeping receipts of cash, the disbursement of cash, and the posting of cash to the ledgers be delegated to separate individuals in order to ensure strong internal controls.

*Sheriff's Response: None*

PRIOR YEAR COMMENT:

The Sheriff Lacks An Adequate Segregation Of Duties - This comment has not been corrected and is repeated above.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Kent Clark, Madison County Judge/Executive  
Honorable Cecil Cochran, Madison County Sheriff  
Members of the Madison County Fiscal Court

**Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Madison County Sheriff's Settlement - 2005 Taxes as of April 15, 2006, and have issued our report thereon dated August 31, 2006. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Madison County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- The Madison County Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.



Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Madison County Sheriff's Settlement - 2005 Taxes as of April 15, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

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Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
August 31, 2006

